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ZNR UUUUU ZZH  
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FM AMEMBASSY TBILISI  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0573  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

UNCLAS SECTION 01 OF 05 TBILISI 002378

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SUBJECT: GEORGIA: SCENESETTER FOR THE TBILISI VISIT OF  
CODEL SCHWARTZ (D-PA, HDAC)

¶1. (SBU) Summary: Your visit to Georgia comes in the aftermath of the August conflict, which resulted in Russia's occupation and recognition of the independence of South Ossetia and Abkhazia. Tension along the de facto boundaries remains high, and international monitors do not have access to South Ossetia. Although many of those displaced by the war have returned to their homes, those displaced from South Ossetia itself and part of Abkhazia have not been granted access to return. The war is the dominant political issue in Georgia. On November 28, in an unprecedented event, President Saakashvili voluntarily defended his wartime decisions in testimony in front of a Parliamentary commission investigating the war. Saakashvili remains an unrivaled figure who drives Georgian politics, but his wartime decisions have drawn significant criticism. Opposition parties and leaders remain largely fractured and have not yet coalesced into a credible electoral alternative. In October, Saakashvili named Grigol Mgaloblishvili (former Georgian Ambassador to Turkey) as Prime Minister, who has been charged with ensuring that international donors fulfill their pledges of assistance. Several new ministers were appointed between December 5 and 9. The moves have generated little public reaction and reflect no significant change in overall policy direction, although some opposition voices have been critical.

¶2. (SBU) Domestically, the government of Georgia is focused on reconstruction of damaged infrastructure, supporting the economy, and exploring ways to integrate an estimated 30,000 newly displaced persons into undisputed Georgian territory, at least temporarily. The global economic downturn, coupled with the fallout of the August conflict, has slowed a once vibrant Georgian economy which, prior to the war, enjoyed double-digit growth rates and was the 15th best place in the world to do business. In 2009, the government will be heavily dependent on foreign aid to achieve many of its reconstruction goals. The USG has pledged \$1 billion in total support and in November, transferred \$250 million of direct budget support to the Georgian government. A total of \$4.5 billion of aid was pledged to Georgia at an October Donors Conference in Brussels, to be distributed over three years, although to date little - other than US assistance - has been disbursed. Thus far, the government has weathered both the military and economic storms remarkably well and Saakashvili remains popular, but substantial challenges remain.

¶3. (SBU) During your visit, you will spend a full day at the Parliament, meeting with Speaker David Bakradze and multiple committees, as well as the two parliamentary opposition factions. The current Parliament was elected in May, 2008, following a period of internal political tumult that began with protests in November 2007, and was followed by early presidential elections in January 2008. Many of the MPs in the current Parliament are new to politics. Speaker Bakradze is a close ally of Saakashvili, and has used his role as Speaker to represent Parliament domestically and

internationally. In the immediate aftermath of the war, Parliament worked with all opposition forces, including those outside of Parliament, in forming the Anti-Crisis Council (ACC). Later, the Parliament formed the above-mentioned investigatory commission to examine the August conflict. Both the ACC and investigatory commission are chaired by opposition MPs, whom you will meet.  
Qopposition MPs, whom you will meet.

¶4. (SBU) In addition to a day in Parliament and a trip to Gori, you will meet President Saakashvili. You may want to congratulate Saakashvili for his openness to public inquiry and commitment to a new round of democratic reforms, to express support for Georgia's territorial integrity, development and recovery efforts, and to encourage the president to support an even more robust and pluralistic democratic system and greater media freedom. You will also have the opportunity to discuss economic and domestic challenges with other members of the government. End Summary.

#### ALL EYES ON SAKASHVILI: STANDING TALL, FACING CHALLENGES

¶5. (SBU) In an effort to counter growing Russian PR efforts to define the conflict at the end of November, President Saakashvili voluntarily testified in front of Parliament. The country watched on live TV as the President sat before the Committee for five hours, first reading a prepared statement and then answering the questions. Saakashvili admitted readily that he had made the decision for Georgian ground forces to enter South Ossetia in order to protect Georgian citizens in the territory. Saakashvili defended the decision as "inevitable," because Russian troops were advancing into South Ossetia and Georgian-controlled villages were being heavily shelled. Saakashvili claimed repeated

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attempts to speak with Russia's leaders and stop hostilities were rebuffed, and that he and the government were left no choice but to try and defend Georgia's citizens and sovereignty by force. Saakashvili argued that any responsible democratic government in Georgia would have reached the same decision. He said Georgia was neither a loser nor a winner in the war, as the struggle continues. However, he said the invasion demonstrated once and for all that Russia could not be considered a "peacekeeper" in Georgia.

¶6. (SBU) Despite the conflict, President Saakashvili remains broadly popular in the wake of the August conflict. A September USAID-funded International Republican Institute (IRI) poll suggests Saakashvili continues to benefit from a public seeking stability. His party, the United National Movement (UNM), has an overwhelming majority in Parliament in part because some opposition leaders rejected their seats. One opposition faction, the Christian Democrats, accepted its seats in Parliament and has seen its public standing grow. The remaining opposition appears fractured; some are calling for new parliamentary and presidential elections and staging protests, while others are starting to doubt the utility of constant protests and unpopular ultimatums urging the President to resign. According to the IRI poll, the popularity and standing of opposition politicians have dropped and no figure has emerged to be the leader of a coherent opposition movement.

#### NON-PARLIAMENTARY OPPOSITION SEARCHING FOR TRACTION

¶7. (SBU) The situation has begun to shift in recent weeks. On November 23, since the poll was conducted, former Saakashvili confidant Nino Burjanadze launched her own party, Democratic Movement-United Georgia, which hopes to present a credible alternative to President Saakashvili and the UNM. On December 5, Georgian Ambassador to the UN Irakli Alasania tendered his resignation. Alasania has long been courted by both the government and the opposition, and appears to be on the verge of announcing his future political intentions. In

the wake of Alasania's resignation, Prime Minister Mgaloblishvili announced two rounds of cabinet changes. On December 6, Grigol Vashadze, current Minister of Culture and former Deputy Foreign Minister, was named Foreign Minister. Nika Gvaramia, a former Justice Minister, was named the Education Minister. Georgia's Defense Minister during the conflict, Davit Kezerashvili, was initially replaced by his deputy Batu Kutelia on December 5, and then Kutelia was replaced December 9 by Georgia's Ambassador to the United States, David Sikharulidze. Also on December 9, Lasha Zhvania, Chairman of the Parliamentary Committee for Foreign Affairs and former Georgian Ambassador to Israel, replaced Eka Sharashidze as Minister of Economic Development, and MP Nika Rurua, Deputy Chairman of the Committee for Defense and Security since 2004, became Minister of Culture. The new line-up indicates Saakashvili's interest in bringing more dependable loyalists into the Cabinet and preempting recommendations to make changes expected from the special parliamentary committee investigating the war.

#### PARLIAMENT, WORKING TOWARDS RELEVANCE AND A ROLE IN GOVERNANCE

18. (SBU) The current Parliament was elected in May, following a period of internal political instability which began with street protests in November 2007. The size of the Parliament was reduced from 235 seats to 150 in May, with 75 filled from national party lists and 75 as single-mandate filled from national party lists and 75 as single-mandate "majoritarian" seats. The ruling United National Movement (UNM) party won 59 percent of the vote, and took 119 out of 150 seats in the new Parliament. The "United Opposition" fractured, as some members alleged the elections were rigged and illegitimate. Following intense negotiation, the Christian-Democratic Movement (CDM), five MPs from the nited Opposition, two majoritarians and two Labor Party candidates joined the new Parliament. Twelve opposition members refused their mandates entirely. Four Labor Party candidates have neither refused their mandates, nor taken their seats. Two vacant majoritarian seats were filled via by-elections in November. The remaining party list seats will remain vacant for the duration of this Parliament. It is important to note that due to the electoral system, there is no residency requirement for the majoritarian seats; consequently, MPs are seldom closely tied to a geographic constituency.

19. (SBU) Parliament had barely coalesced in July, when the August invasion derailed its budding initiatives. Now, Parliament is trying to help determine what went wrong, help fix it, and ensure it does not happen again. Weakened somewhat as a check on the executive branch over the past few

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years, the new Parliament must show its mettle. Many of the MPs in the current Parliament are new to politics, without significant legislative or governmental experience. Speaker Bakradze, who is close to Saakashvili, has taken the lead on representing Parliament domestically and internationally, and is now trying to bolster Parliament to rise again as an effective broker for the people of Georgia. In the immediate aftermath of the war, Parliament worked with all opposition forces, including those outside of Parliament, to forming the Anti-Crisis Council (ACC). Later, the Parliament formed an investigatory commission to analyze the August conflict and the events precipitating it; the commission conducted weeks of testimony, capped off by a five-hour public appearance by President Saakashvili during which he offered an explanation for the actions taken during the August conflict. The commission's final report is due out in the near future. You will have the opportunity to meet with both groups during your visit.

#### REFORMS STILL KEY

10. (SBU) On the issue of broader political reform, the government released a document laying out a variety of planned political reforms to improve democracy and pluralism

in Georgia. The ACC is involved in implementing many of these reforms. The document acknowledges the mistakes the government made in its use of force to quell protests in November 2007. The document closely follows President Saakashvili's September "State of the Nation" address to Parliament and his address to the UN General Assembly, in which he outlined his vision for a more democratic Georgia. The proposed (and in some cases completed) reforms include measures to strengthen Parliament; increase judicial independence; strengthen and increase the role of the opposition; and foster a more open media environment. Opposition members are skeptical of government motivations and are not satisfied with the breadth and pace of reforms. Opposition leaders are calling for, among other things, a freer and more fair media environment; a change to the electoral code; and more opposition access to decision-making. In spite of opposition dissatisfaction, Saakashvili's administration appears committed to making good on President Saakashvili's reform promises.

#### THE ECONOMY: RECOVERING, BUT UNDER STRAIN

¶11. (SBU) On the economic front, the Georgian economy seems to be recovering slowly, after the shock of Russia's August invasion. Preliminary estimates for negative growth have been revised and the government privately expects total GDP growth for 2008 to be around 4-5 percent, well below last year's growth of 12 percent. The GOG is predicting four percent GDP growth for 2009, although some commentators suggest this figure is too optimistic, and will likely be closer to two percent. The real test of the economy will come in the first quarter of 2009 when revenues traditionally slow. The government has real concerns that unemployment numbers could skyrocket in light of the August conflict and overall global financial crisis. While still weakened, the banking sector has been resilient and some modest lending has resumed. A recent devaluation of the Georgian lari proceeded smoothly, but the public is wary that further devaluation is likely as the dollar continues to appreciate. The overall credit crisis still threatens the recovery of the Georgian economy, which is heavily dependent on foreign direct investment (FDI) for growth. The conflict has slowed the FDI investment (FDI) for growth. The conflict has slowed the FDI stream considerably, and the government seeks to reassure investors about the stability of Georgia's market. A Deputy Secretary of Commerce-led trade delegation in October was greatly appreciated by the Government and led to several new investment deals.

¶12. (SBU) Georgia does not appear to face immediate or medium-term liquidity problems. Tax collection has resumed to normal levels, although the government fears a difficult first and second quarter. The government worries that a slowing local and global economy will exacerbate this problem, but hopes to be able to fill some budgetary holes with foreign aid. In general, Georgia is committed to its long-term growth strategy of lowering taxes and simplifying the tax code; reducing financial and business regulations to foster an open business climate; aggressively privatizing government held assets; and focusing funding on infrastructure projects to provide for long-term economic growth. The conflict has forced the government to redirect some of its spending to acute social needs, in particular those of internally displaced persons (IDPs). However, the long-term economic plan remains intact. Georgia's economic team has seen success in the past: in 2008, Georgia was named

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the 15th best country in which to do business by the Economist. The economy will continue to be a key domestic issue as the President Saakashvili and the ruling National Movement have substantially staked their electoral fortunes on the ability to provide robust economic growth.

#### THE CONFLICTS: STILL TENSE, WITH URGENT SECURITY AND HUMAN RIGHTS CONCERNS

¶13. (SBU) The situation on the ground along the administrative boundary lines of Abkhazia and South Ossetia remains very tense and is unlikely to improve soon. Violent, even fatal, incidents are frequent, primarily caused by Russia, Abkhaz or South Ossetian soldiers, and carry considerable risk of escalation. On December 10, unknown assailants fired at and hit a marked OSCE armored patrol vehicle with automatic rifle fire, near the South Ossetian administrative boundary. Three international organizations monitor the situation and help deter the resumption of hostilities: the UN Observer Mission in Georgia (UNOMIG), which operates inside and outside Abkhazia; the OSCE Mission to Georgia, which currently operates outside South Ossetia; and the EU Monitoring Mission (EUMM), which currently operates outside both regions. Both the OSCE and EUMM have been effectively blocked from crossing the boundaries, which limits their effectiveness. No international organization except for UNHCR has regular access to South Ossetia, increasing the concern of humanitarian crisis. Russia has publicly announced it will maintain 3,800 troops in each of the breakaway regions and is reportedly building military bases in both. Although the EUMM has been working with the Georgian government to keep its military forces away from the boundaries, no international organization has been able to work on this issue with the Russians or the de facto governments on the Abkhazian and South Ossetian sides. The international community therefore has little means to determine if the Russian and de facto governments are taking steps to prepare for renewed hostilities.

¶14. (SBU) Points 3 and 5 of the August 12 cease-fire agreement respectively require free access for humanitarian assistance to the conflict zones and the withdrawal by Russian forces to their positions held before the war. Russia and the de facto authorities, in particular the South Ossetians, have not provided free access to humanitarian organizations, and Russia has not withdrawn its forces to their pre-war positions. Particularly egregious examples include the massive increase of Russian military presence in both regions and the occupation of the Akhagori Valley in eastern South Ossetia, which before the war was outside of the "zone of conflict," was administered by Georgian authorities and had no Russian presence. The lack of access by humanitarian organizations, in particular to South Ossetia, has left the international community unable to answer serious questions about the human rights situation in both regions and with no ability to investigate the charge that the South Ossetians engaged in ethnic cleansing. Over 20,000 displaced persons from South Ossetia cannot return to their homes. In Abkhazia, several hundred cannot return to their homes, and there is considerable evidence of an intentional campaign to drive ethnic Georgians from their homes, then destroy those homes to prevent their return. A total of about 30,000 new IDPs, combined with hundreds of thousands of IDPs from earlier conflicts, have created significant humanitarian challenges. The government has Qsignificant humanitarian challenges. The government has impressively managed to build several thousand new homes for many of the new IDPs in time for winter, but longer-term needs remain, such as jobs. However, as increased attention is being paid to the new IDPs, an older generation of IDPs from the 1993-94 war with Abkhazia, numbering more than 225,000, is beginning to feel resentment for what it considers years of neglect.

¶15. (SBU) On the political level, the EU has taken the lead in starting a process of international discussions in Geneva (in accordance with Point 6 of the cease-fire). Official parties to the talks are the EU, OSCE, UN, Georgia, Russia and the U.S.; there has been considerable controversy over the informal participation of the de facto authorities, as well as representatives of Tbilisi-supported Abkhaz and South Ossetian groups. The second round of talks on November 18-19 went reasonably well, with all participants willing to accept security/stability and IDP returns as the basic areas for discussion. The next meeting will be on December 17-18. We hope that this forum can provide a space to address the more



urgent issues, such as security. However, consideration of the thornier issues, such as the final political status of the two regions, will likely be postponed for some time.

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#### GEORGIA AND NATO

¶16. (SBU) Georgian government officials hailed the December NATO Ministerial in Brussels as a victory for Georgia. They said the decision to intensify cooperation between Tbilisi and NATO and invigorate the NATO-Georgia Commission (NGC) would play a central role in moving Georgia toward membership. Opposition figures, however, have been more critical, stating that the ministerial's result is not a victory, but a significant loss. They blame Saakashvili for ruining Georgia's chances at MAP. Both the government and opposition are trying to present the Brussels Ministerial to their advantage. Opposition attacks on the issue are stronger than in the past, and the fact that MAP appears off the table provides an opening on a key Saakashvili policy objective. Russian Prime Minister Putin was also widely quoted in the Georgian press as hailing the decision in yet another stab at the Saakashvili government. In spite of the Government's best efforts, some Georgians see Brussels as a defeat for the U.S. and for Georgia and are questioning Georgia's Euro-Atlantic strategic choice. In spite of that, for now, most Georgians support membership in NATO and still see it as their strongest, irreversible step into the West.  
TEFFT